

**PUBLIC DISCLOSURE**

**OCTOBER 18, 2010**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**SPENCER SAVINGS BANK**

**90282**

**176 MAIN STREET  
SPENCER, MASSACHUSETTS 01562**

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Boston, MA 02118**

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<b>NOTE:</b>	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") and the Federal Deposit Insurance Corporation ("FDIC") to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **SPENCER SAVINGS BANK (or the "Bank")**, prepared by the Division and FDIC, the institution's supervisory agencies

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated “Satisfactory” by the FDIC and “High Satisfactory” by the Division.

Note: The FDIC’s CRA regulation does not have separate categories within the Satisfactory rating, whereas the Division’s CRA regulation allows for either a High Satisfactory or Satisfactory rating.

An institution in this category has a good record of helping to meet the credit needs of its assessment area, including low- and moderate-income geographies and individuals, and small businesses in a manner consistent with its resources and capabilities.

Intermediate Small Bank CRA procedures were utilized for the evaluation. The assigned rating is based on the results of two performance tests: the Lending Test and the Community Development Test. The Bank’s performance under each of these two tests is summarized below:

**The Lending Test is rated: Outstanding.**

- The Bank’s average net loan-to-deposit ratio is more than reasonable given the Bank’s size, financial condition, and assessment area credit needs.
- A majority of the Bank’s loans are inside the assessment area.
- The distribution of loans by borrowers reflects, given the demographics of the assessment area(s), excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of residential mortgage and small business loans reflects excellent dispersion throughout the assessment area.
- The Bank did not receive any CRA-related complaints since the previous CRA evaluation.

**The Community Development Test is rated: Satisfactory.**

- The Bank’s community development loans, investments, and services demonstrates adequate responsiveness to the community development needs of the assessment area through community development loans, qualified investments, and community development services as appropriate, considering the institutions capacity and the need and availability of such opportunities for community development in the institution’s assessment area.

## SCOPE OF THE EXAMINATION

This evaluation was conducted jointly between the Division and FDIC. Intermediate Small Bank CRA evaluation procedures were used to assess the Bank's CRA performance. These procedures utilize two performance tests: the Lending Test and the Community Development Test. This evaluation considered the Bank's lending and community development activities for the period of May 5, 2008 through October 18, 2010. The data and applicable timeframes for the Lending Test and the Community Development Test are discussed below.

Through a review of the Bank's loan portfolio composition and discussions with management, it was noted that the Bank's primary lending focus was residential lending. However, the Bank is also an active commercial lender. While the Bank originated small farm loans and consumer loans, they represented a nominal percentage of the Bank's loan portfolio. Therefore, neither will be considered in this analysis. Additionally, the Bank did not collect consumer lending data and did not request consumer lending be considered in this evaluation. The focus of this evaluation will center on the Bank's residential mortgage and small business lending activities.

Information concerning the residential mortgage lending was derived from the Loan Application Registers ("LARs") maintained by the Bank, pursuant to the Home Mortgage Disclosure Act ("HMDA"). The LARs contain data about home purchase and home improvement loans, including refinancings, of one- to four-family and multifamily (five or more units) properties.

The lending performance of other financial institutions, as reported on their HMDA LARs for 2008, is provided in this Public Evaluation for comparison purposes. This information is referred to as aggregate lending data. The aggregate lending data is used for comparison purposes within the evaluation and is a measure of loan demand. It includes lending information from all HMDA reporting lenders that originated loans in the Bank's assessment area.

Residential loans originated in 2008, 2009, and through June 30, 2010 (YTD 2010), were considered in this analysis. Greater emphasis was placed on the 2008 lending performance since this is the latest year for which aggregate lending data is available. Residential lending activity for calendar year 2009 and YTD 2010 was also analyzed to identify any significant trends or anomalies. Reference to 2009 and YTD 2010 data is not included in any tables, except for the Assessment Area Concentration criterion table, but is referenced in the narrative (if applicable) to show trends and/or anomalies in comparison with lending patterns.

This evaluation also considered small business loans. Information on commercial real estate and commercial and industrial loans originated with original balances of \$1 million or less were used and compared to the business demographics of the Bank's assessment area. Since the Bank is not subject to formal CRA data reporting, given its asset size, a sample of 24 small business loans was selected from a universe of 66 loans. All of the small business loans sampled were originated during 2009. This is the latest year from which small business demographic information is available. As an Intermediate Small Bank, small business loans are not required to be reported by the Bank. As such, comparing the Bank's small business lending activity to small business aggregate lender data would not be appropriate as the aggregate lenders are much larger institutions required to report small business data. Instead, the Bank's small business lending performance is compared to pertinent 2009 demographic information. Small business lending data for 2008 and YTD 2010 is referenced in the narrative to illustrate trends and/or anomalies in comparison with lending patterns.

The Community Development Test includes analyses of the institution's loans, investments, and services that meet the definition of community development under the CRA. The period covered for the Community Development Test is May 5, 2008, through the current evaluation date of October 18, 2010.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Spencer Savings Bank is a Massachusetts state-chartered, mutual savings bank established in 1871. The Bank is headquartered at 176 Main Street in Spencer, Massachusetts. At June 30, 2010, Spencer Savings Bank's assets totaled approximately \$401.6 million, which represents a 16.4 percent increase since March 31, 2008, the financial statement date used for the FDIC and Division's previous CRA performance evaluation. Loans totaled \$283.3 million at June 30, 2010, an increase of 2.0 percent since the previous evaluation. Table 1 displays information regarding the loan portfolio.

**Table 1**

<b>Loan Portfolio Distribution as of June 30, 2010</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000s)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	9,470	3.3
Farms	5	Nominal
1-4 Family Residential	197,363	69.6
Multi-Family (5 or more) Residential	14,679	5.2
Commercial	37,359	13.2
Agricultural	1,615	0.6
<b>Total Real Estate Loans</b>	<b>260,491</b>	<b>91.9</b>
Commercial and Industrial	14,014	4.9
Consumer	8,792	0.2
Other	56	3.0
<b>Total Loans</b>	<b>283,353</b>	<b>100.0</b>

*Source: Consolidated Reports of Condition and Income as of June 30, 2010.*

As shown in Table 1, the Bank is primarily a residential mortgage lender, with such loans representing 69.6 percent of the loan portfolio. The largest portion of the residential mortgage loans are for one- to four-family closed-end mortgages. Commercial loans, including real estate as well as commercial and industrial loans represent 18.1 percent, construction and land development represent 3.8 percent, and consumer loans represent 0.2 percent.

The FDIC assigned a rating of "Satisfactory" and the Division assigned a CRA rating of "High Satisfactory" at the last joint CRA evaluation of Spencer Savings Bank on May 5, 2008.

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area. Based upon the Bank's asset size, product offerings, and branch network, its ability to meet the assessment area's credit needs is adequate.

### **Description of Assessment Area**

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The assessment area as currently defined meets the technical requirements of the CRA regulation since it: (1) consists of one or more political subdivisions, (2) includes the geographies where the bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend substantially beyond state boundaries, unless otherwise permitted, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

Spencer Savings Bank's Assessment Area consists of the Massachusetts Towns of Brookfield, Charlton, East Brookfield, Holden, Leicester, North Brookfield, Oakham, Paxton, Rutland, Spencer, Warren, and West Brookfield. All 12 of these towns are located in Worcester County and are part of the Worcester, MA Metropolitan Statistical Area ("MSA").

The assessment area comprises 17 census tracts (geographies), of which none are low-, 2 are moderate-, 9 are middle-, and 6 are upper-income. One of the moderate-income tracts is in Spencer and the other is in Warren.

### **Population**

According to 2000 US Census data, the population of the assessment area is 79,869. Households total 29,094, of which 19.3 percent are low-income; 13.6 percent are moderate-income; 19.3 percent are middle-income; and 47.8 percent are upper-income. A sub-set of low-income households, those with income below the poverty level, constitute 5.5 percent of total households.

Providing further insight into the demographic composition of the assessment area population is the number of families at each income level. Based on 2000 US Census data, there are 21,617 families in the assessment area, of which 14.9 percent are low-income; 16.1 percent are moderate-income; 25.9 percent are middle-income; and 43.1 percent are upper-income. Additionally, 3.5 percent of total families have incomes below the poverty level (a sub-set of low-income families). Just over one-half of assessment area families reside in middle-income census tracts, whereas 13.2 percent reside in moderate-income tracts and 35.7 percent reside in upper-income tracts.

### **Income**

Based on the 2000 US Census, the median family income (MFI) for the assessment area was \$64,168. However, the Department of Housing and Urban Development (HUD) publishes annual estimates of the MFI for metropolitan and non-metropolitan areas that are adjusted for inflation and other economic events. The 2008 HUD-adjusted MFI for the Worcester, MA MSA was \$76,900; and the 2009 HUD-adjusted MFI was \$79,700.

The analysis of the Bank's residential lending by borrower income is based on these figures. The breakdown of borrower income categories is based on the HUD-adjusted MFI figures mentioned previously. Low-income is defined as less than 50 percent of MFI; moderate-income is 50 percent to less than 80 percent; middle-income is 80 percent to less than 120 percent; and upper-income is 120 percent and over. Table 2 illustrates the low-, moderate-, middle-, and upper-income ranges for 2008 and 2009 based on the respective MFI figures for the Worcester MSA.

**Table 2**

<b>Worcester, MA MSA Income Ranges</b>		
<b>Income Level</b>	<b>2008 (HUD-adjusted MFI = \$76,900)</b>	<b>2009 (HUD-adjusted MFI = \$79,700)</b>
<b>Low</b>	Less than \$38,450	Less than \$39,850
<b>Moderate</b>	\$38,450 - \$61,520	\$39,850 - \$63,760
<b>Middle</b>	\$61,520 - \$92,280	\$63,760 - \$95,640
<b>Upper</b>	\$92,280 or greater	\$95,640 or greater

*Source: US Department of Housing and Urban Development*

### ***Housing***

The assessment area contains 30,644 housing units, of which 74.2 percent are owner-occupied, 20.6 percent are occupied rentals, and 5.1 percent are vacant. The median age of housing stock is 35 years; the median housing value, according to 2000 US Census data, was \$146,898; and the median monthly gross rent is \$556. More recent housing data for the assessment area revealed that median sales prices for 2008 actually declined from the 2000 US Census data to \$142,729.

### ***Employment and Unemployment***

The largest employer in the assessment area is FLEXcon Corporation in Spencer and the largest employer in Worcester County is the University of Massachusetts Memorial Medical Center, located in the City of Worcester. At the end of 2008, the unemployment rate for Worcester County was 6.3 percent, which was higher than the Commonwealth of Massachusetts unemployment rate of 5.9 percent, but lower than the national unemployment rate of 6.6 percent. The 2009 unemployment rate in Worcester County rose to 9.6 percent which mirrored the nation's unemployment rate as a whole.

### ***Competition***

The business environment in which Spencer Savings Bank operates is competitive. Market share reports from 2008 reveal that 201 financial institutions reported at least one residential mortgage loan in the Bank's assessment area. Of the 201 lenders, Spencer Savings Bank ranked 1<sup>st</sup> with 9.5 percent of the market share. Bank management considers Country Bank, Southbridge Savings Bank, and Webster First Credit Union to be its primary competitors.

### ***Business Demographics***

According to data obtained from *Dun & Bradstreet*, there were 5,524 businesses in the assessment area in 2009. When analyzed by Census tract income level, 10.3 percent of these businesses are in moderate-income census tracts; 55.9 percent are in middle-income census tracts; and 33.8 percent are in upper-income census tracts. When analyzed by size of business, 80.8 percent of all businesses had gross annual revenues of \$1 million or less; 3.4 percent had gross annual revenues of greater than \$1 million; and the remaining 15.8 percent did not report their gross annual revenues.

### ***Community Contact***

A community contact conducted with a local community development organization during the evaluation period indicated that one of the area's primary credit needs is affordable housing for residents who are considered low- and moderate-income.

Based on a review of demographic data and discussions with a local community development organization, the assessment area has no one primary credit need. However, given that the area is mostly comprised of residential communities, retail residential loan products are perhaps in greatest demand. The area's residents also require a variety of consumer loan products to meet personal needs and an array of home financing programs for the purchase, construction, or refinance of a residence. The area's business base also requires numerous commercial credit options to meet a wide variety of financing needs.



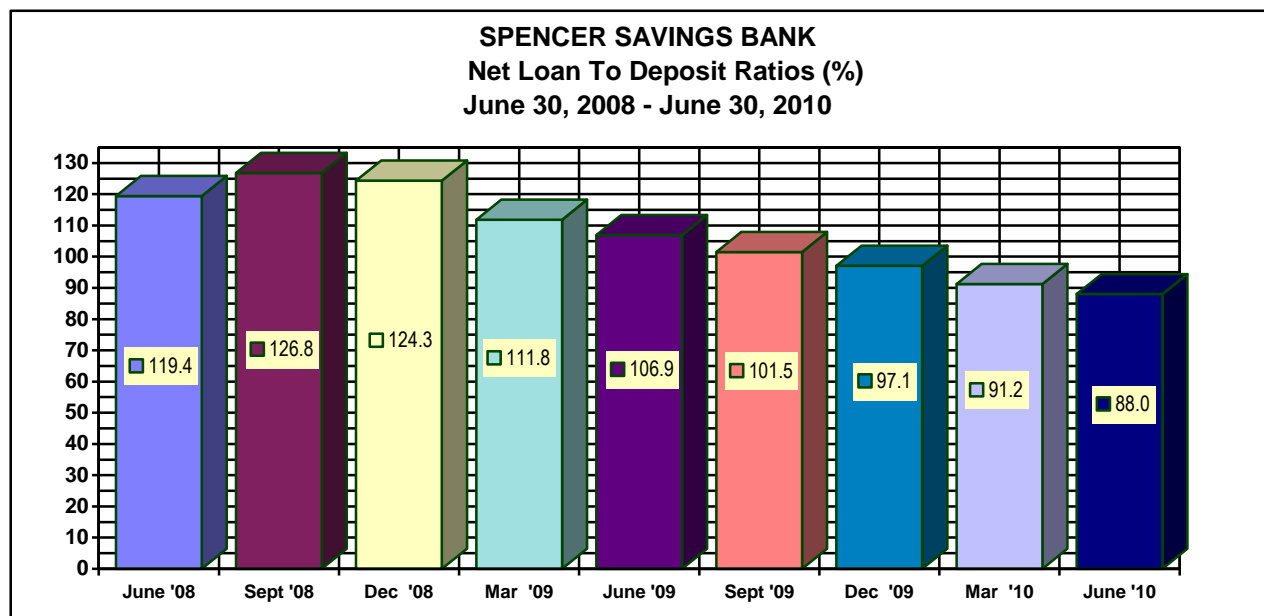
## PERFORMANCE CRITERIA

### LENDING TEST

#### 1. LOAN TO DEPOSIT (LTD) ANALYSIS

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans and evaluates its appropriateness. The Bank's average net LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The analysis of Spencer Savings Bank's quarterly net LTD ratios from June 30, 2008 through June 30, 2010 was conducted using the Bank's quarterly FDIC Call Reports. The Bank's average net LTD ratio for the period is 107.4 percent. This ratio is based upon loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The following graph is provided for further illustration.

**Table 3**



As shown in Table 3 above, the Bank's average net LTD ratio demonstrates a generally decreasing trend during the previous 7 quarters. The Bank's LTD decreased from a high of 126.8 percent in September 2008 to the current figure of 88.0 percent as of June 2010.

The Bank was also compared to other similarly situated institutions in terms of total assets, lending focus, and geographic location. Table 4 illustrates the asset size and average net LTD ratios for Spencer Savings Bank as compared to similarly situated institutions.

**Table 4**

Bank Name	Asset Size (000's)	Average Net LTD 6/30/2008 to 6/30/2010
Southbridge Savings Bank	359,676	108.2%
Spencer Savings Bank	401,600	107.4%
Clinton Savings Bank	349,302	100.7%
Savers Cooperative Bank	281,737	100.8%

Source: Report of Condition and Income (Call Reports) June 30, 2010

As seen in Table 4, Spencer Savings Bank has the second highest average LTD ratio of 107.4 percent when compared to the other institutions.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

This performance criterion determines what percentage of the Bank's lending occurs within the assessment area and evaluates its appropriateness. Based on a review of the residential loan and small business loan data, a majority of the Bank's lending activity occurs in the assessment area.

**Table 5**

Table C

Distribution of Residential Mortgage Loans Inside and Outside of the Assessment Area										
Year and Loan Purpose	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2008										
Purchase	48	49.5	49	50.5	97	10,15	45.9	11,98	54.1	22,135
Home Improvement	67	69.1	30	30.9	97	25,547	48.5	35,888	51.5	11,435
Refinance	120	65.9	62	34.1	182	16,786	54.3	14,134	45.7	30,920
Total	235	62.5	141	37.5	376	32,485	50.4	32,005	49.6	64,490
2009										
Purchase	34	44.7	42	55.3	76	6,251	45.1	7,613	54.9	13,864
Home Improvement	49	70.0	21	30.0	70	5,314	69.8	2,298	30.2	7,612
Refinance	119	70.8	49	29.2	168	15,891	57.7	11,631	42.3	27,522
Total	202	64.3	112	35.7	314	27,456	56.0	21,542	44.0	48,998
YTD 2010										
Purchase	17	54.8	14	45.2	31	2,885	52.1	2,653	47.9	5,538
Home Improvement	17	56.7	13	43.3	30	1,644	43.1	2,173	56.9	3,817
Refinance	33	73.3	12	26.7	45	4,488	68.7	2,043	31.3	6,531
Total	67	63.2	39	36.8	106	9,017	56.8	6,869	43.2	15,886
Total Residential Mortgage Loans	504	63.3	292	36.7	796	68,968	53.3	60,416	46.7	129,384
2009 Small Business Loans	15	62.5	9	37.5	24	548	41.8	763	58.2	1,311
Grand Total	519	63.3	301	36.7	820	69,516	53.2	61,179	46.8	130,695

Source: 2008, 2009 and Year to Date (YTD) 2010 HMDA LARs and 2009 Small Business Loan Reports

As noted in Table 5 above, the Bank originated 63.3 percent of residential loans by number and 53.3 percent of residential loans by dollar volume within its assessment area. A sample of small business loans from 2009 shows that 62.5 percent by number and 41.8 percent by dollar volume were originated by the Bank within its assessment area.

### Residential Lending

The analysis performed for this criterion revealed that a majority of the residential mortgage loans the Bank extended in 2008, 2009 and YTD 2010 were inside the assessment area. As shown in Table 5, the total volume of residential mortgage loans decreased slightly from 2008 to 2009, but the percentage inside the assessment area by both number and dollar amount increased. Market data from 2008 shows that the Bank ranked 1<sup>st</sup> out of 201 lenders that reported originating at least one loan in the assessment area, representing a market share of 9.5 percent.

### Small Business Lending

The analysis performed for this criterion revealed that a majority of the small business loans extended in 2009 by number were inside the assessment area. As shown in Table 5, the total volume of small business loans were originated within the Bank's assessment area, but the majority by dollar volume was outside the assessment area.

## **3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES OF DIFFERENT SIZES**

The distribution of loans by borrower income levels and businesses' gross annual revenues was reviewed to determine the extent to which the Bank is addressing the credit needs of the area's residents and small businesses. Overall, the distribution of borrowers reflects excellent penetration among individuals of different income levels, including those of low- and moderate-income, and businesses of different sizes.

### Residential Lending

Table 6 details the distribution of the Bank's 2008 residential mortgage loans by borrower income levels within the assessment area by number and dollar amount. For comparison purposes, the table includes the percentage of the assessment area's families by income level and the aggregate performance levels for 2008.

**Table 6**

Distribution of Residential Mortgage Loans by Borrower Income							
Income Level	% Total Families	2008 Aggregate Lending Data		2008 Bank Data			
		(% of #)	(% of \$)	#	%	\$ (000s)	%
Low	14.9	7.0	3.9	18	7.7	902	2.8
Moderate	16.1	22.0	17.9	43	18.3	3,802	11.7
Middle	25.9	31.1	31.8	70	29.8	8,653	26.6
Upper	43.1	37.6	43.1	94	40.0	16,533	50.9
N/A	-	2.3	3.3	10	4.2	2,595	8.0
Total	100.0	100.0	100.0	235	100.0	32,485	100.0

Source: 2000 US Census Data, 2008 Bank and HMDA Aggregate Data

As shown in Table 6, 14.9 percent of families within the assessment area are low-income. The Bank's record of extending home mortgages to low-income borrowers, at 7.7 percent of total home mortgages by number, exceeds the aggregate market performance of 7.0 percent. By dollar amount, Spencer Savings Bank extended \$902,000 in home mortgages to low-income borrowers, which represents 2.8 percent of the total dollar volume of the Bank's home mortgage lending in 2008. This dollar volume of lending activity is slightly lower than the aggregate market performance of 3.9 percent.

A review of the Bank's lending in 2009 revealed an increase in the percentage of loans to low-income individuals. In 2009, the Bank originated 8.9 percent of its home mortgage loans to low-income borrowers, compared to 7.7 percent in 2008. By dollar amount, the Bank's percentage of loans to low-income borrowers also rose from 2.8 percent in 2008 to 3.9 percent in 2009.

Market data analysis reveals that out of all lenders that reported home mortgages in 2008, Spencer Savings Bank ranked 1<sup>st</sup> and had a 10.3 percent market share in lending to low-income borrowers. This is another indication of the Bank's strong commitment to meeting the credit needs of low-income individuals within the assessment area.

The Bank's record of extending home mortgages to moderate-income borrowers, at 18.3 percent of total home mortgages, is excellent when compared to the percentage of moderate-income families (16.1 percent). The Bank's performance in this area, however, lags that of the aggregate performance of 22.0 percent. By dollar amount, Spencer Savings Bank extended \$3.8 million in home mortgages to moderate-income borrowers, which represents 11.7 percent of the total dollar volume of the Bank's home mortgage lending in 2008.

The Bank's level of lending to moderate-income individuals, as a percentage of total loans, increased from 2008 to 2009. In 2009, the Bank originated 22.3 percent of its home mortgage loans to moderate-income borrowers, compared to 18.3 percent in 2008. By dollar amount, the Bank's percentage of loans to moderate-income borrowers also rose from 11.7 percent in 2008 to 17.8 percent in 2009.

According to 2008 aggregate lending data, Spencer Savings Bank ranked 1<sup>st</sup> in lending to moderate-income borrowers, claiming an 8.0 percent market share.

### Small Business Lending

Table 7 illustrates the distribution of the Bank's 2009 small business lending within the assessment area by size of business, as determined by gross annual revenue (GAR) category. For comparison purposes, the table includes the percentage of businesses within each income category.

**Table 7**

<b>Distribution of Small Business Loans by Income Category of Census Tract</b>					
<b>GAR Level</b>	<b>% Total Businesses</b>	<b>2009 Bank Data</b>			
		<b>#</b>	<b>% of #</b>	<b>\$ (000s)</b>	<b>% of \$</b>
<b>&lt;= \$1 million</b>	80.8	13	86.7	438	79.9
<b>&gt; \$1 million</b>	3.4	2	13.3	110	20.1
<b>Unknown</b>	15.8	0	0	0	0
<b>Total</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>	<b>548</b>	<b>100.0</b>

*Source: 2009 Dun & Bradstreet Business Geodemographic data and 2009 Small Business Loan Reports*

As shown in Table 7, the Bank made 86.7 percent by number and 79.9 percent by dollar amount of their small business loans inside their assessment area to businesses with GAR of \$1 million or less. By number, the Bank's percentage is greater than the percentage of assessment area businesses in that size category (80.8 percent), which reflects the Bank's success at meeting the credit needs of small businesses.

#### 4. GEOGRAPHIC DISTRIBUTION

The distribution of the Bank's residential mortgage and small business loans reflects excellent dispersion throughout the assessment area.

##### Residential Lending

The Bank originated residential loans in each of the 17 census tracts within the assessment area. Table 8 illustrates the geographic distribution of the Bank's 2008 residential mortgage lending within the assessment area by number and dollar volume. For comparison purposes, the table includes the percentage of owner-occupied housing units within each income category and the aggregate performance levels for 2008. As previously mentioned, there are no low-income census tracts in the assessment area.

**Table 8**

Distribution of Residential Mortgage Loans by Income Category of the Census Tract							
Census Tract Income Level	% Total Owner-Occupied Housing Units	2008 Aggregate Lending Data		2008 Bank Data			
		% of #	% of \$	#	% of #	\$ (000s)	% of \$
Moderate	10.5	9.0	7.2	52	22.1	5,411	16.7
Middle	51.6	50.8	48.8	164	69.8	22,841	70.3
Upper	37.9	40.2	44.0	19	8.1	4,233	13.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>235</b>	<b>100.0</b>	<b>32,485</b>	<b>100.0</b>

*Source: 2000 US Census Data, 2008 Bank HMDA Data, and 2008 Aggregate HMDA Data*

Within the moderate-income census tracts, the Bank's 2008 lending activity, at 22.1 percent by number and 16.7 percent by dollar amount, well exceeds the aggregate market performance of 9.0 percent by number and 7.2 percent by dollar amount. The Bank's percentages are also well above the percentage of owner-occupied housing units in those geographies (10.5 percent). Furthermore, market data for 2008 indicate that the Bank ranked 1<sup>st</sup> out of all lenders that originated at least one loan in the assessment area's moderate-income tract, with a market share of 20.5 percent of all loans made in the moderate-income tracts.

A review of the Bank's 2009 HMDA data revealed slightly lower distribution of loans by number in moderate-income tracts (16.8 percent). It is to be noted, however, that this still well exceeds the percentage of owner-occupied housing units in these geographies.

##### Small Business Lending

Table 9 illustrates the geographic distribution of the Bank's 2009 small business loans within the assessment area by number and dollar volume. For comparison purposes, the table includes the percentage of businesses within each census tract income category.

**Table 9**

Distribution of Small Business Loans by Income Category of Census Tract					
Census Tract Income Level	% Total Businesses	2009 Bank Data			
		#	% of #	\$ (000s)	% of \$
Moderate	10.3	4	26.7	117	21.4
Middle	56.0	11	73.3	431	78.6
Upper	33.7	0	0	0	0
<b>Total</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>	<b>548</b>	<b>100.0</b>

*Source: 2009 Dun & Bradstreet Business Geodemographic data and 2009 Small Business Loan Reports*

As shown in Table 9, the Bank made 26.7 percent, by number, of all small business loans in the assessment area in moderate-income census tracts. This is higher than the percentage of businesses that are located in those census tracts. By dollar amount, the Bank's percentage (21.4 percent) was also greater than the percentage of businesses in the moderate-income tracts.

## **5. RESPONSE TO CRA COMPLAINTS**

Neither the Bank nor the FDIC or the Division received any CRA-related complaints involving Spencer Savings Bank since the previous CRA evaluation, dated May 5, 2008.

### **COMMUNITY DEVELOPMENT TEST**

Spencer Savings Bank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area.

Based on a review of demographic and economic data, activities of similarly situated financial institutions, and reviews of community development organization contacts, the assessment area has some community development needs. The Bank has met these community development needs through the provision of community development loans, qualified donations and grants, and community development services.

#### ***Community Development Loans***

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the Bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the Bank's assessment area or a broader statewide or regional area that includes the Bank's assessment area.

As defined in the CRA regulation, a community development loan has as its primary purpose either affordable housing for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing small businesses or small farms; or activities that revitalize or stabilize low- and moderate-income geographies

Spencer Savings Bank originated or renewed 3 community development loans totaling \$1.175 million in its assessment area during this evaluation period. Community development loans as a percent of net loans approximately 0.4 percent. The following is a listing of each community development loan originated or renewed by the Bank, by year, during the evaluation period.

- In December of 1995, the Bank participated in a \$300,000 line of credit (LOC) participation loan to a local CDC. The organization serves a target area that includes several towns within the Bank's assessment area that have been highly affected by adverse economic conditions in recent years. This organization's purpose is to help businesses that do not qualify for conventional financing at local Banks. The CDC grants loans to these businesses through the use of this LOC it has established with seven local banks including Spencer Savings Bank. In 2003, the LOC was renewed and increased to \$450,000 and has been renewed annually thereafter. However, the LOC was reduced to \$322,500 in June of 2008 and further reduced to \$225,000 in May of 2009. There are currently six loans outstanding on the line with a total balance of just over \$120,000. The Bank's share is \$17,803 as of October 18, 2010. The total credit line amount is currently \$225,000 and the Bank's share is 10.9 percent or \$24,418.

- On March 23, 2007, the Bank granted a \$450,000 non-revolving line of credit with a current balance of \$190,000 secured by a first mortgage to fund infrastructure expenses for the development of a four building condominium project with nine units in Holden. In addition, on March 23, 2007, the Bank granted a \$500,000 revolving construction line-of-credit with a current balance of \$263,614 secured by a second mortgage to construct the nine condominium units. Of the nine units, seven are to be sold at market rates. The remaining two units, or 22.2 percent, are designated affordable housing units by the Town of Holden and are deed restricted for this purpose. This project helped address the need for affordable housing in the Town of Holden that was identified by a past community contact made in the Bank's assessment area. The need for affordable housing is pronounced in towns such as Holden, which are composed solely of upper-income Census tracts. All loans were renewed in September of 2010. The sixth unit is currently under construction.

The following loans were to a CDC located in Worcester. While Worcester is not in the Bank's assessment area, these community development loans benefit a broader regional area that includes the Bank's assessment area.

- In July of 2008, the Bank provided funding for a CDC located in Worcester for \$400,000 to refinance their existing loan on two properties in the main south area of Worcester. The two buildings contain six units and are all restricted to low- and moderate-income individuals.
- In February of 2009, the Bank funded a construction loan for \$80,000 to a Worcester CDC to renovate a home that was sold to a low- or moderate-income individual. The home is located in Worcester and the construction work was completed by YouthBuild a nonprofit entity that's provides training in the construction trades for at risk youths. This causes a lengthened construction period, but provides valuable training for neighborhood youth. The Bank was able to provide the funding quickly so that Youthbuild was able to partner with the CDC for the renovation work.
- In June of 2010, the Bank originated a loan to a Worcester CDC in the amount of \$750,000 to refinance their existing loan. This is a mixed use property that contains 26 residential apartments and all units are restricted to low- and moderate-income individuals. The loan was refinanced to lower the interest rate and provide cash out for some renovations and working capital for the nonprofit agency.

### ***Qualified Investments***

A qualified investment for purposes of this CRA evaluation is a lawful investment, deposit, donation, or grant that has community development as its primary purpose. During the evaluation period, the Bank has \$27,840 in qualified investments and donations. This represents 24 donations made during this evaluation period.

From May 5, 2008 through December 31, 2008, the Bank granted \$11,604 in charitable donations to community organizations; \$3,085, or 26.7 percent, is considered qualified community development donations. From January 1, 2009 through December 31, 2009, the Bank granted \$18,050 in donations; \$8,165, or 45.2 percent, is considered qualified community development donations. From January 1, 2010 to October 18, 2010, the Bank granted \$28,517 in donations; \$16,590, or 58.2 percent, is considered qualified community development donations. Cash donations as a percent of pre-tax net operating income (NOI) was 0.1 percent in 2008 and 1.7 percent for YTD 2010. It should be noted that the Bank posted a loss for year ending 2009.

The following is a summary of the number and dollar amount of donations by community development purpose category.

**Table 10**

<b>Qualified Community Development Donations</b>								
<b>Community Development Category</b>	<b>05/05/2008-12/31/2008</b>		<b>2009</b>		<b>01/10/2010-10/18/2010</b>		<b>Totals</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Affordable Housing for Low- and Moderate-Income Individuals	0	0	1	1,250	2	5,250	3	6,500
Community Services Targeted to Low- and Moderate-Income Individuals	4	3,085	9	6,915	8	11,340	21	21,340
Promote Economic Development	0	0	0	0	0	0	0	0
Revitalize or Stabilize Low- or Moderate-Income Geographies	0	0	0	0	0	0	0	0
<b>Total</b>	<b>4</b>	<b>3,085</b>	<b>10</b>	<b>8,165</b>	<b>10</b>	<b>16,590</b>	<b>24</b>	<b>27,840</b>

*Source: Internal Bank Records*

The aforementioned qualified community development donations benefited organizations that provide education, youth programs, affordable housing, health and human services, and community services. The following are a few examples of the organizations to which Spencer Savings Bank made qualified community development donations during the evaluation period.

**The NeighborWorks® HomeOwnership Center** offers an extensive menu of services and programs to train, counsel, and finance both potential homebuyers and veteran homeowners. This organization is part of a nationwide network of community organizations that operate in distressed neighborhoods with low- and moderate-income population. This organization is expanding its service area to Southern Worcester County. The Bank has donated \$5,000 in 2010 and pledged an additional \$5,000 for next year to fund a housing counselor that will be based in Southbridge. The Bank has also offered the use of their Main Office for classes and individual counseling sessions.

**Devereux Massachusetts**, located in Rutland, serves children and adolescents with special emotional and behavioral needs. They have programs such as a behavioral treatment residence where students reside in group homes and they have intensive foster care services. Their target clientele are children of low- to moderate-income families.

### ***Community Development Services***

A Community Development Service has community development as its primary purpose and is generally related to the provision of financial services or technical services or assistance. Employees of the Bank are involved in local community development services in various capacities. Trustees, management and staff serve on the Boards and Committees of various community organizations, civic groups and non-profits. In addition, the Bank sponsors and participates in educational services and seminars.

The following lists organizations within the Bank's assessment area that received community development services from the Bank.



**Quaboag Valley Business Assistance Corp.** – This organization is part of the QV CDC and its purpose is to help businesses that do not qualify for conventional financing at local banks. The organization grants loans to these businesses through its own LOC it has established with seven local banks including Spencer Savings Bank. The Bank's Assistant Vice President/Branch Administrator serves on the executive board of this organization.

**Tri Valley, Inc.** – This organization provides services to elders and younger adults with disabilities. They help elders with many issues including credit problems. A former Bank Branch Manager volunteered on a regular basis at the Tri Valley, Inc. The Employee visited senior citizens in the area once a month to help them balance their check book and pay their monthly bills.

**Oak Hill Community Development Corporation** - This organization is focused on providing affordable housing for low- and moderate-income individuals. Programs include down payment assistance and financial literacy courses. The Bank's Vice President serves on the Board and the Finance Committee.

**Quaboag Valley Community Development Corporation (QV CDC)** - This non-profit organization focuses on the Ware River Valley Economic Target Area, consisting of the towns within the assessment area that have been highly affected by adverse economic conditions in recent years. The Bank's Assistant Vice President serves on the executive Board of this organization contributing financial expertise.

**The Exchange Club of Spencer** - This organization is non-profit and raises money for the neediest individuals in the community with a special emphasis on children. The Bank's Assistant Vice President of Lending serves as Secretary for this organization. The Bank's President and Vice President are also active members and served as past Presidents of the organization.

### **Educational Services and Seminars**

The Bank also conducted or sponsored a few educational workshops or programs during the evaluation period:

First Time Home Buyer's Seminar – Spencer Savings Bank has hosted a home buyer seminar in 2009. The seminar was geared to educate and assist first time home buyers.

Spencer Savings Bank Financial Scholars Program - This web based program developed by EverFi educates students in financial literacy. The Bank purchased this program and provided it to several area high schools for the 2009-2010 school year. Approximately 156 students participated in the program. The program covers savings, banking, and credit financing a college education, renting vs. owning, consumer fraud and more.

### **Branch and Services Distribution**

The Bank's main office is in Spencer, Massachusetts. In addition to the main office, the Bank operates four additional full-service branches, which are located in Spencer (Fair Plaza Branch), Leicester, Rutland, and Warren. All branches are located in Massachusetts. The Bank operates Automated Teller Machines (ATMs) at each of its branch locations, as well as a stand-alone ATM in Worcester (located in Union Station). The Bank also has a Business Banking Center at 400 Grove Street in the City of Worcester. The Banking Center offers investment and loan services, and does not accept deposits or offer ATM services. All branches are located within the Worcester MA, Metropolitan Statistical Area (MSA).

Of the five offices, two are located within moderate-income census tracts and the remaining three are located in middle-income census tracts. All office locations, including the main office, have ATMs. Further, the Bank operates ATMs at Flexcon Corporation located in Spencer (for Flexcon employees only), and Pine Acres in Oakham a summer resort open from May to October only. The Bank also operates one remote ATM outside its assessment area inside Union Station in Worcester. This location is not in the Bank's assessment area and is located in a moderate-income census tract. It should be noted all remote ATM's only dispense cash - no deposits are accepted.

A review of the Bank's services by branch location revealed no inconsistencies by location. Regardless of census tract location, all of the Bank's branches had relatively consistent branch hours, the same type and number of products and services offered, and availability.

### **Changes in Branch Locations or ATMs**

The Bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems. The Bank has not closed any offices during the evaluation period. Since the last evaluation the Bank closed a remote ATM located in Rutland within the Save-Way convenience store. This ATM was located within a middle-income census tract.

Table 11 below summarizes the distribution of the Bank's offices and ATMs by census tract income level compared with the distribution of total census tracts in the Bank's assessment area by income level and the distribution of the assessment area population by census tract income level.

**Table 11**

<b>Distribution of Branches and ATMs in the Assessment Area</b>						
<b>Census Tract Income Level</b>	<b>% of Tracts</b>	<b>% of Population</b>	<b>Branches</b>		<b>ATMs*</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Moderate</b>	11.8	13.5	2	40	2	28.6
<b>Middle</b>	52.9	51.9	3	60	5	71.4
<b>Upper</b>	35.3	34.6	0	0	0	0
<b>Total</b>	100.0	100.0	5	100.0	7	100.0

*Source: Internal Bank Records*

*\*Includes remote ATM's at Pine Acres and Flexcon Co.*

A review of the Branch and ATM distribution within the assessment area reveals that the Bank has a good distribution in the assessment area's two moderate-income census tracts. The distribution of its branches and ATMs are consistent with the distribution of branches and percent of the population residing within the different Census tract income levels.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The Bank's compliance with the laws relating to discrimination and other illegal credit practices were reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. No evidence of discriminatory or other illegal practices was identified inconsistent with helping to meet assessment area credit needs.

**APPENDIX A**  
***Fair Lending Policies and Procedures***

**MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted to determine the number of HMDA-reportable credit applications the Bank received from minority applicants within its assessment area. In 2008, 2009, and YTD 6/30/2010 the Bank received 723 residential loan applications from within its assessment area. During this period, 6 applications, or 0.8 percent, were received from minorities and 1 was approved. The aggregate data for 2008 shows that 2.6 percent of applications were received from minority applicants. Eight or 1.1% of applications were received from individuals of Hispanic or Latino ethnic backgrounds and none were approved. For 2008, the percentage of applications from individuals of Hispanic or Latino decent for the aggregate stood at 1.6.

The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area and the 2008 aggregate data for all other HMDA reporters within the assessment area. The comparison of the data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. The data shows that while the Bank was consistent with regard to receipt of applications from ethnic minorities, the aggregate outperformed the Bank with regard to receipt of applications from racial minority applicants.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 176 Main Street, Spencer, MA 01562

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.